

Message Text

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ACTION SS-25

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S E C R E T ROME 5147

EXDIS

E.O. 11652: GDS
TAGS: PFOR, EFIN, IT, IMF
SUBJECT: ITALIAN STABILIZATION PROGRAM

1. IN A ROUGH, TOUGH SESSION WITH LABOR LEADERS WHICH LASTED UNTIL FIVE THIS MORNING, ANDREOTTI WAS NOT ABLE TO OBTAIN THEIR AGREEMENT TO DECOUPLE THE INCREASE IN THE IVA TAX FROM THE WAGE INDEXATION SYSTEM. HE WAS, HOWEVER, ABLE TO GET AGREEMENT TO DECOUPLE FROM THE SCALA MOBILE (WAGE INDEXATION) THE PRICE INCREASES OF NEWSPAPERS, URBAN TRANSPORTATION, AND ELECTRICITY RATES, BUT COULD NOT GET THEIR AGREEMENT TO INCLUDE NATURAL GAS, POSTAL RATES AND RAILWAY RATES AS DESIRED BY THE IMF NEGOTIATORS.

2. WHEN I SAW ANDREOTTI AT NOON TODAY (CALL PREVIOUSLY SCHEDULED FOR ANOTHER SUBJECT) HE TOLD ME THAT TREASURY MINISTER STAMMATI HAD GONE TO WASHINGTON THIS MORNING TO PERSUADE THE IMF TO ACCEPT THIS FINAL COMPROMISE. HE TOLD ME THAT IN HIS BEST JUDGMENT THIS WAS ALL HE COULD GET OUT OF THE UNIONS AND THAT BOTH THE COMMUNISTS AND SOCIALISTS WOULD FOLLOW THE UNIONS WHEN IT CAME TO PARLIAMENTARY CONSIDERATION OF THE PACKAGE. IF FORCED BY THE IMF ON THIS ISSUE, ANDREOTTI SAID THAT HIS GOVERNMENT WOULD PROBABLY FALL.

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3. AS ANDREOTTI EXPLAINED THE PRESENT PROPOSAL, THE PRICE OF A BUS TICKET IN ROME WOULD BE INCREASED BUT THE PRICE OF A MONTHLY PASS WOULD REMAIN UNCHANGED AND THE LATTER FIGURE WOULD BE USED TO CALCULATE THE SCALE MOBILE ADJUSTMENT. THE SAME PROCEDURE WOULD APPLY TO NEWSPAPERS, USING IN THAT CASE THE LOWER ANNUAL SUBSCRIPTION RATE. THE MATTER OF ELECTRICITY IS SLIGHTLY MORE COMPLICATED. THERE

IS A SMALL INITIAL AMOUNT OF ELECTRICITY USED BY HOUSEHOLDERS WHICH HE TERMED "THE MINIMUM" THE PRICE OF WHICH WOULD BE INCREASED ONLY marginally, BUT ABOVE THE MINIMUM THE COST OF ELECTRICITY WOULD GO UP AT ABOUT 10 PERCENT A YEAR BUT ONLY THE SMALL MINIMUM PORTION WOULD BE INCLUDED IN THE ADJUSTMENT PROCESS. IN ANSWER TO MY QUESTION ANDREOTTI SAID THIS WOULD HAVE AN INSIGNIFICANT EFFECT ON THE SCALE MOBILE.

4. IN ADREOTTI'S VIEW, THE LONG-TERM EFFECT OF HIS PROPOSAL WOULD BE MORE BENEFICIAL IN REDUCING THE INFLATION RATE OF THE COUNTRY THAN THE EARLIER PROPOSAL TO ELIMINATE A FEED-BACK INTO THE WAGE INDEXATION SYSTEM OF THE IVA TAX TO PAY FOR THE FISCALIZATION OF SOCIAL CHANGES. ANDREOTTI COMPLAINED THAT THE INSISTENCE OF THE FUND IN USING THE IVA WOULD NOT REPEAT NOT HELP ON THE GENERAL PROBLEM OF INFLATION BECAUSE AS A SALES TAX IT WOULD HELP TO INCREASE PRICES RATHER THAN CURTAIL THEM.

5. I ASKED ANDREOTTI IF HE HONESTLY BELIEVED THAT THIS PROGRAM WAS (A) THE MOST HE COULD DO IN THE POLITICAL CIRCUMSTANCES AND (B) WOULD ACHIEVE THE ECONOMIC GOALS WE ARE ALL SEEKING, INCLUDING THAT OF THE FUND TO REDUCE THE INFLATION RATE FROM OVER 20 PERCENT TO 13 PERCENT BY APRIL NEXT YEAR AND TO 8 PERCENT (ON A YEAR-TO-YEAR BASIS) BY THE END OF 1978. HIS ANSWER TO BOTH QUESTIONS WAS AN UNQUALIFIED YES. ON THAT BASIS AND THE GROUNDS OF THE SERIOUS POLITICAL PROBLEM WHICH HE HAD OUTLINED, I TOLD HIM I WOULD DO MY BEST TO EXPLAIN TO THE U.S. AUTHORITIES THE NEED TO SUPPORT THE GOI POSITION WITH THE FUND AT THIS TIME. GARDNER

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